

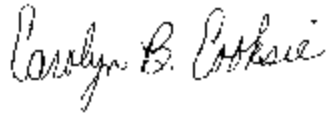
UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

**Lender Manual
2-FLP Lender**

Amendment 4

Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A

**Reasons for
Amendment**

Subparagraph 17 D has been removed.

Part 5 has been amended to rearrange and add information for clarification.

Subparagraph 108 C has been amended to add a note concerning the number of occasions.

Paragraph 123 has been amended to add a note on development work.

Subparagraph 136 B has been amended to add a provision on prepayment penalties.

Subparagraph 136 C has been added to include information on guarantee fees.

Subparagraph 138 C has been amended to update flood insurance requirements.

Subparagraph 152 J has been removed because the information is in paragraph 124.

Subparagraph 153 B has been amended to add reference for major changes in yields, prices, or production.

Subparagraph 168 D has been amended to add reference to entity liability.

Paragraph 196 has been amended to add the State beginning farmer program to the 95 percent exemption.

Continued on the next page

Amendment Transmittal (Continued)

A

Reasons for Amendment (Continued)

Subparagraph 224 D has been amended to add information on eligibility for interest assistance.

Paragraph 227 has been amended to add an explanation on the execution of FSA-1980-64.

Subparagraph 228 D has been amended to add a provision on submitting FSA-1980-24 when the claim is 0.

Subparagraph 244 A has been amended to increase the maximum loan levels to \$717,000.

Subparagraph 247 A has been amended to include the fees waived for State beginning farmer program loans.

Page Control Chart		
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17 Types of Guaranteed Loans

A

Operating Loans

Operating loans (OL) may be used to finance items needed for a successful farm operation. These items include the following:

- ⌄ livestock
- ⌄ farm equipment
- ⌄ annual operating expenses
- ⌄ family living expenses
- ⌄ refinancing debts under certain conditions.

For more information on operating loans, see Part 8, Sections 2 through 4 and Part 9.

B

Lines of Credit

Lines of Credit (LOC) are operating loans for annual operating purposes. Loan funds may be advanced and repaid repeatedly (revolve) throughout the year.

For more information on Lines of Credit, see Part 8, Sections 2 through 4 and Part 9.

C

Farm Ownership loans

Farm Ownership loans (FO) may be used to:

- ⌄ purchase farmland
- ⌄ construct or repair buildings and other fixtures
- ⌄ develop farmland to promote soil and water conservation
- ⌄ refinance debt.

For more information on Farm Ownership loans, see Part 8, Sections 2 through 4 and Part 9.

* * *

18 Interest Assistance Program

A

Requirements

In certain situations, lenders may use the interest assistance program to assist a borrower in qualifying for an FSA-guaranteed loan. Under the interest assistance program, FSA will subsidize 4 percent of the interest rate on loans to qualifying borrowers.

For more information on the interest assistance program, see Part 9.

19 Full Faith and Credit Applicability and Exceptions (7 CFR 762.103)

A

Full Faith and Credit Applicability

The loan guarantee constitutes an obligation supported by the full faith and credit of the United States.

B

Exceptions for Fraud and Misrepresentation

The Agency may contest the guarantee only in cases of fraud or misrepresentation by a lender or holder, in which the lender or holder:

- C** had actual knowledge of the fraud or misrepresentation at the time it became the lender or holder
 - C** participated in or condoned the fraud or misrepresentation.
-

C

Exceptions for Lender Violations

The loan guarantee cannot be enforced by the lender, regardless of when the Agency discovers the violation, to the extent that the loss is a result of any of the following:

- C** violation of usury laws
 - C** negligent servicing
 - C** failure to obtain the required security
 - C** failure to use loan funds for purposes specifically approved by the Agency.
-

Continued on the next page

46 Eligibility Requirements for Standard Eligible Lender (7 CFR 762.105(b)) (Continued)

D**Local Lender**

The lender must maintain an office near enough to the collateral's location so it can properly and efficiently discharge its loan making and loan servicing responsibilities or use Agency approved agents, correspondents, branches, or other institutions or persons to provide expertise to assist in carrying out its responsibilities. The lender must be a local lender unless it does either of the following:

- C normally makes loans in the region or geographic location in which the loan applicant's operation being financed is located**
- C demonstrates specific expertise in making and servicing loans for the proposed operation.**

It is expected that the lender's business office will be located near the loans that it services. If the lender is lending out of its normal service area, FSA shall determine whether or not the loan can be appropriately serviced by the lender. Depending on the type of loan and the type of farming operation, it is important the lender have:

- C local knowledge
 - C the ability to conduct inspections of collateral
 - C regular contact with the borrower.
-

E**Participation**

The lender, its officers, or agents must not be debarred or suspended from ~~participation in Government contracts or programs~~ and the lender must not be delinquent on a Government debt.--*

47 Approval Process for Standard Eligible Lender

A

Approval

Standard Eligible Lender approval is granted for the purpose of originating and servicing a guaranteed loan. SEL approval is granted with each guarantee application approved. The review of the lender will be very limited when the lender has received previous guarantees.

48 Monitoring Standard Eligible Lender

A

Review of Lender Performance

FSA shall review 40 percent of the lender's guaranteed loan files over the course of each year. To the extent that deficiencies are discovered during the monitoring review, FSA shall inform the lender in writing and, if necessary, propose a timeframe for a reinspection of the deficiencies.

B

Imposing Sanctions

In situations where FSA is unable to resolve deficiencies with the lender, enforcement actions may be taken. Before the implementation of any enforcement action by FSA, the lender will be:

- C notified in writing of the deficiencies
- C given a specific timeframe in which to resolve the deficiencies
- C warned of the sanctions that may be taken by FSA if the deficiencies are not resolved.

Examples of unresolved deficiencies may include the following:

- C failure on the part of the lender to obtain an adequate appraisal
 - C failure to perfect a lien
 - C failure to adequately monitor the borrower or the collateral.
-

Continued on the next page

Part 5 Loan Application Requirements (7 CFR 762.110)**69 Application Requirements for SEL's and CLP Lenders (7 CFR 762.110)**

A**General
Application
Requirements**

SEL's and CLP lenders must perform at least the same level of evaluation and documentation for guaranteed loans as for nonguaranteed loans of a similar type and amount.

Good communication will minimize problems and help ensure a rapid review of applications. FSA will communicate with lenders throughout the application preparation and submission process. Lenders are encouraged to:

- C contact FSA for assistance with the application
- C address any issues or deficiencies before they become problems.

Lenders may use FSA-1980-01, Lender's Processing Checklist, as an application processing checklist.

B**Maintaining
Complete Loan
File**

All lenders must compile and maintain in their files a complete application for each guaranteed loan. CLP lenders must certify that the required items, not submitted, are in their files.

--The lender's file must contain the applicable items in paragraphs 69.5 and 69.6 and all correspondence with the borrower regarding servicing actions and-- other loan-related documentation generated after loan approval.

The Agency may request additional information from any lender or review the lender's loan file as needed to make eligibility and approval decisions.

***--69.5 Requirements for Loans of \$50,000 or Less**

A

Application Package--*

A complete application for loans of \$50,000 or less from SEL and CLP lenders must, at least, consist of:

- C the application form** (see subparagraph B)
- C loan narrative** (see subparagraph C)
- C balance sheet** (see subparagraph D)
- C*--cash flow budget** (see subparagraph E)
- C description of farmed land** (see subparagraph F)
- C credit report** (see subparagraph G)
- C environmental information** (if needed see subparagraph H)
- C information related to entity applicants** (if needed see subparagraph I).--*

In addition to the minimum requirements, the lender will perform at least the same level of evaluation and documentation for a guaranteed loan that the lender typically performs for non-guaranteed loans of a similar type and amount.

The \$50,000 threshold includes any single loan, or package of loans submitted for consideration at any one time. A lender must not split a loan into two or more parts to meet the threshold thereby avoiding additional documentation.

Note: An application requesting guarantees of multiple loans of different types (FO, OL, LOC), each of which is less than \$50,000, will be processed under the requirements of this paragraph.

The Agency may require lenders with a lender loss rate in excess of 7 percent *--to assemble additional documentation from paragraph 69.6.

Paragraph 69.7 describes which items must be submitted to FSA. On an --* individual lender basis, FSA may request additional information to make eligibility and approval decisions.

B

Application Form

Lenders may use FSA-1980-25 or their own loan application form if it contains the same information. If a lender uses its own application form, the lender must attach an executed FSA-1980-25 containing the loan applicant's name and address and any information not on the lender's form.

Continued on the next page

***--69.5 Requirements for Loans of \$50,000 or Less (Continued)**

C**Loan --*
Narrative**

The application package must include a narrative description of the lender's underwriting of the loan. The narrative must contain information and analysis of any loan application data that are out of the ordinary, or at variance with normal practices for the type of operation and region. The narrative must be an evaluation and not just a summary of the data. It may be less detailed for a present customer who already has a guaranteed loan or an FSA direct loan.

The narrative should address the following, as applicable:

- C describe the farming operation, such as types of enterprises, key personnel and management structure, their roles and background, proposed changes to the operation and adequacy of real estate, equipment, and other facilities
 - C an assessment of the adequacy of the collateral being offered to secure the proposed loan
 - C a discussion of the loan applicant's financial condition and projected repayment ability
- Note:** The lender should discuss any significant assumptions or deviations from historical performance in the proposed cash flow budget.
- C the short-term and long-term business goals of the operation
 - C the borrower's reporting requirements, limitations, and other conditions based on the lender's analysis of the proposal
 - C lender servicing plan describing the borrower's financial reporting requirements, limitations and conditions, plans for visiting the borrower, and any other borrower supervision
 - C if the loan contains balloon payments, the conditions related to the renewal of loan
 - C a discussion of how the loan applicant meets the loan eligibility requirements.
-

D**Balance Sheet**

The application package must contain a balance sheet for the loan applicant that was prepared within 90 calendar days of the application submission.

Continued on the next page

***--69.5 Requirements for Loans of \$50,000 or Less (Continued)**

E

**Cash Flow
Budget**

The lender should submit a cash flow budget as described in Exhibit 2. If significant changes are expected in the operation during the life of the loan, more than 1 cash flow budget may need to be developed.--*

F

**Description of
Farmed Land**

A description of the location of each tract of land to be farmed by the loan applicant should be provided. This may be by FSA farm number, legal description, plat map, or other identifying method. This may be included as part of the loan narrative.

G

Credit Report

A credit report on the loan applicant's credit history must be provided. In addition, lenders should consider any other pertinent information concerning the loan applicant's credit history.

H

**Environmental
Information**

Borrowers are required to have a current AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file with FSA. Lenders should remind borrowers that AD-1026 must be executed with FSA if one is not already on file.

FSA can conduct its environmental review in most cases without additional information from the lender. However, occasionally additional information is needed, and until this information is received, the application is not complete, and the loan processing timeframe does not start. Situations needing additional information often involve wetland determinations, potential historical or archaeological sites, or construction of major confinement livestock facilities. The review is FSA's responsibility to conduct. However, the information to complete this review is part of a complete application.

I

**Additional
Requirements
for Entity
Applicants**

--In addition to the information required in this paragraph and paragraph 69.6,-- entity applicants must submit additional information for each entity member. The application must contain the following information about each entity member:

- C name
 - C address
 - C Social Security number
 - C percent ownership interest in the entity
 - C current balance sheet.
-

***--69.6 Requirements for Loans Over \$50,000**

A**Application Package**

A complete application package for a guaranteed loan over \$50,000 will consist of the items in paragraph 69.5, plus subparagraphs B through G.

Note: Paragraph 69.7 describes which items must be submitted to FSA.--*

B**Verification of Income**

Nonfarm and “other farm” income should be documented using FSA forms or documentation the lender uses for its nonguaranteed loans.

C**Verification of Debts Over \$1,000**

Verification can be documented using FSA forms or documentation the lender uses for its nonguaranteed loans.

D**Financial History**

The financial history should support cash flow projections and include 3 years of income and expenses and 3 years of balance sheets.

E**Production History**

*--The application should include **3 years of production history** (SEL only).--*

F**Proposed Loan Agreements**

Any proposed nontypical agreements between the lender and the borrower should be explained in the narrative.

G**Development Plans**

If construction or development is planned, a copy of the plans, a copy of the specifications, and a development schedule is needed.

--69.7 Submission Requirements for SEL's and CLP Lenders--**A****Submission Requirements**

The following table summarizes the submission requirements for SEL's and CLP lenders. In addition to the items submitted to FSA, lenders are expected to maintain in their files all applicable items that do not need to be submitted. Lenders certify that they have the required documentation in their files by signing FSA-1980-25.

Submission Requirement	For Loans \$50,000 or Less		For Loans More Than \$50,000	
	SEL	CLP Lender	SEL	CLP Lender
Application Form	U	U	U	U
--Loan Narrative--	U	U	U	U
* * * Balance Sheet	U	U	U	U
Cash Flow Budget	U	U	U	U
* * * Description of Farmed Land	U	U	U	U
Entity Information (if applicable)	U	U	U	U
Credit Report	U	F	U	F
Environmental Information (if applicable)	U	U	U	U
* * *	* * *	* * *	* * *	* * *
Proposed Loan Agreement			U	F
Verification of Debts Over \$1,000			U	F
Verification of Nonfarm Income			U	F
3 Years of Production History			U	N/A
3 Years of Financial History			U	F
--Development Plans (if applicable)--			U	F

Note: Items marked with an "F" are items that do not have to be submitted, but must be maintained in the lender's file.

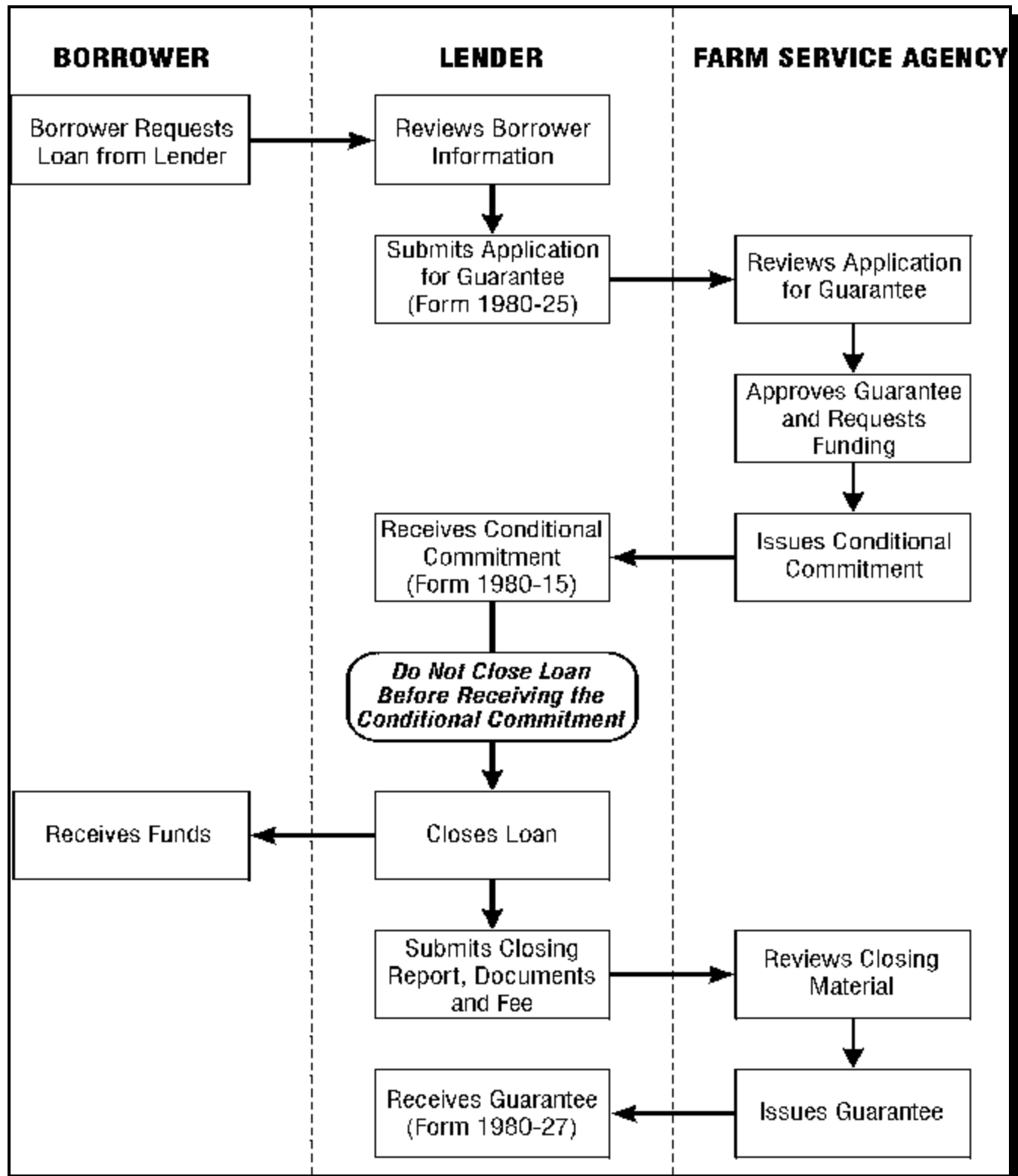
If the lender is requesting interest assistance, the following must be submitted:

- C a proposed debt repayment schedule
- C a monthly cash flow budget for LOC's.

Continued on the next page

*--69.7 Submission Requirements for SEL's and CLP Lenders (Continued)--***B**

Loan Processing Flow Chart Following is the loan processing flow chart.



70 Application Requirements for PLP Lenders (7 CFR 762.110)

A

Application Requirements

A complete application for PLP lenders will consist of:

- Ⓒ FSA-1980-28
- Ⓒ a loan narrative
- Ⓒ any other items agreed to during the approval of the PLP lender's status and contained in the PLP lender agreement.

PLP lenders must certify that the required items, not submitted, are in their files. On a case-by-case basis, the Agency may request additional information from any lender or review the lender's files as needed to make eligibility and approval decisions. These requests will be made only in situations when, because of the unique characteristics of the loan request, an eligibility or approval decision cannot be made without additional information.

FSA can conduct its environmental review in most cases without additional information from the lender. However, occasionally additional information is needed, and until this information is received, the application is not complete, and the 14-calendar-day timeframe does not start. Situations needing additional information often involve wetland determinations, potential historical or archaeological sites, or construction of major confinement livestock facilities. The review is FSA's responsibility to conduct. However, the information to complete this review is part of a complete application.

B

Narrative

FSA expects PLP lenders to include a discussion of the 5 "C's" of credit; that is, character, capacity, capital, conditions, and collateral; in the narrative. The narrative prepared by PLP lenders should contain applicable information similar to *-- subparagraph 69.5 C.--*

For many PLP lenders, the narrative will often contain the same information submitted to the lender's loan committee. Since FSA will rely on the narrative and application form for making the loan approval decision, it is important that the narrative cover any issues or questions that may arise during the evaluation process.

71 Application Requirements for Subsequent Operating Loans

A

Application Requirements

Subsequent Operating Loans within the same operating cycle do not require the *--complete application submission in paragraphs 69, 69.5, 69.6, 69.7, and 70.--* Only those items that have changed from the original application must be submitted, such as the cash flow projection.

72 Market Placement Program (7 CFR 1910.4(c))

A

Purpose

The Market Placement Program is designed to assist qualified existing direct loan borrowers and new direct loan applicants in obtaining a guaranteed farm loan from a commercial lender.

B

Lender Participation

Each County Office shall identify lenders who are interested in participating in the Market Placement Program. Lenders should advise FSA of their interest.

C

FSA Preparation of Loan Application

--If the loan assessment completed in accordance with the direct loan application concludes that guaranteed assistance may be available, FSA will send the information in the loan application to area lenders.--

In the Market Placement Program, direct loan applications are processed under the standard direct loan procedures. * * * If the loan applicant is eligible and may qualify to receive a guaranteed loan, FSA shall present the completed guaranteed loan application to 1 or more lenders, selected by the loan applicant, who have expressed an interest in the Market Placement Program. The lenders are informed that FSA will guarantee a loan when an application package is presented to them.

Continued on the next page

72 Market Placement Program (7 CFR 1910.4(c)) (Continued)

C**FSA Preparation
of Loan****Application
(Continued)**

The package FSA will provide to lenders will include the following:

- C FSA-1980-25
- C a farm plan
- C a narrative
- C a suggested plan for servicing
- C an appraisal.

If more than 1 lender is interested in the guaranteed loan, the loan applicant shall select 1 of the lenders. The lender must prepare the loan or LOC agreement. SEL's must submit the loan or LOC agreement to FSA before FSA issues a Conditional Commitment. The Conditional Commitment shall be issued upon the lender's acceptance of the loan application and confirmation that funds are available.

73-82 (Reserved)

Part 6 Application Processing Timeframes (7 CFR 762.130)**83 Application Processing Timeframes by Lender Type (7 CFR 762.130)**

A**Processing
Timeframes for
SEL's**

Complete applications from Standard Eligible Lenders will be approved or rejected, and the lender notified in writing, no later than 30 calendar days after receipt.

The counting of the 30 calendar days begins when FSA determines that the
--application is complete, as defined in paragraphs 69, 69.5, 69.6, and 69.7.--

B**Processing
Timeframes for
CLP and PLP
Lenders**

Complete applications from CLP or PLP lenders will be approved or rejected not later than 14 calendar days after receipt. For PLP lenders, if this time frame is not met, the application will automatically be approved, subject to funding, and receive an 80 or 95 percent guarantee, as appropriate.

*--The counting of the 30 calendar days begins when FSA determines that the
application is complete, as defined in paragraphs 69, 69.5, 69.6, 69.7 and 70.--*

If a PLP application is automatically approved, the lender must not close the loan or disburse funds until funds are obligated by FSA as evidenced by receipt of a Conditional Commitment.

84-94 (Reserved)

Part 8 Loan Evaluation

Section 1 Eligibility (7 CFR 762.120)

108 General Eligibility Requirements for Farm Operating (OL) and Farm Ownership (FO) (7 CFR 762.120)

A**Summary of Eligibility Requirements**

A loan applicant and anyone who will execute the promissory note, including members of an entity application, must meet the following eligibility criteria to obtain a guaranteed loan. An eligible loan applicant is an applicant that:

- Ⓒ has not caused FSA a loss by receiving debt forgiveness on more than 3 occasions
- Ⓒ is not delinquent on any Federal debt
- Ⓒ does not have any outstanding recorded judgments obtained by the United States in a Federal court
- Ⓒ is a citizen of the United States or an alien lawfully admitted to the United States for permanent residence
- Ⓒ has the legal capacity to incur the obligations of the loan
- Ⓒ has an acceptable credit history
- Ⓒ is not able to obtain sufficient credit elsewhere without a guarantee
- Ⓒ has not been convicted of planting, cultivating, growing, producing, harvesting, or storing a controlled substance within the last 5 crop years
- Ⓒ has not received direct or guaranteed OL's for more than 15 years.

B**Clarification of Loan Applicant**

In this part, the loan applicant includes any person who will execute the promissory note. In the case of an entity, the loan applicant includes all the members of the entity who will execute the promissory note.

Note: [7 CFR 762.130] For entities, the note is executed by the member who is authorized to sign for the entity, and by all members of the entity as individuals.

Continued on the next page

108 General Eligibility Requirements for Farm Operating (OL) and Farm Ownership (FO) (7 CFR 762.120) (Continued)

C**No Agency Loss**

The loan applicant, and anyone who will execute the promissory note, has not caused the Agency a loss by receiving debt forgiveness on more than three occasions prior to April 4, 1996, or on any occasion after April 4, 1996, on all or a portion of any direct or guaranteed loan made under the authority of the CONACT by debt write-down, write-off, compromise under the provisions of Section 331 of the CONACT, adjustment, reduction, charge-off, or discharge in bankruptcy or through any payment of a guaranteed loss claim under the same circumstances.

A CONACT loan is any of the following loan types, whether direct or guaranteed, made by FSA or its predecessor agency (FmHA):

- ☐ FO
- ☐ OL
- ☐ SW
- ☐ Emergency (EM)
- ☐ Economic Emergency (EE)
- ☐ Emergency Livestock (EL).

Notwithstanding the preceding sentence, applicants who receive a write-down under Section 353 of the CONACT, or are current on payments under a confirmed bankruptcy reorganization plan, may receive direct and guaranteed OL loans to pay annual farm and ranch operating expenses, which includes family subsistence, if the applicant meets all other requirements for the loan.

Notes: A borrower, who has successfully completed a bankruptcy reorganization plan, will be considered to be current on the plan.

--All debt forgiveness actions that are part of 1 transaction and occur on or about the same date are normally considered 1 occasion of debt forgiveness, regardless of the number of loans involved. Since debt forgiveness on direct loans and guaranteed loans are always considered separate transactions, concurrent forgiveness on direct and guaranteed loans are separate occasions. A single loan may have debt forgiveness on more than 1 occasion, when, for example, a borrower received a writedown and the loan was later liquidated at a loss.--

A lender should contact the local FSA office if it is unsure of a loan applicant's eligibility.

Continued on the next page

108 General Eligibility Requirements for Farm Operating (OL) and Farm Ownership (FO) (7 CFR 762.120) (Continued)

D

Delinquency on Federal Debt

The loan applicant, and anyone who will execute the promissory note, is not delinquent on any Federal debt, other than a debt under the Internal Revenue Code of 1986. Any debt under the Internal Revenue code of 1986 may be considered by the lender in determining cash flow and credit worthiness.

The loan applicant may be considered eligible if the delinquency will be remedied on or before the date of loan closing. Unless otherwise prohibited, loan applicants may use loan funds to cure delinquencies. Federal debt includes, but is not limited to, student loans, CCC loans, FSA loans, VA loans, and SBA loans. Debt under the Internal Revenue Code of 1986 is not considered Federal debt in this context.

E

Outstanding Recorded Judgments

The loan applicant, and anyone who will execute the promissory note, has no outstanding unpaid judgments obtained by the United States in any court. Such judgments do not include those filed as a result of action in the United States Tax Courts.

Loan applicants must pay outstanding judgments in full, except for judgments in United States Tax Courts, or otherwise satisfy the judgment to be eligible for guaranteed loans. Loans will not be approved with unresolved Federal judgments in place. Loan funds will not be used to pay Federal judgments.

F

United States Citizenship

The loan applicant is a citizen of the United States or an alien lawfully admitted to the United States for permanent residence under the Immigration and Nationalization Act. Indefinite parolees are not eligible. For an entity applicant, all members of an entity must meet the citizenship test. Aliens must provide the appropriate Immigration and Naturalization Service forms to document their permanent residency.

G

Legal Capacity to Incur Loan

The loan applicant and all borrowers on the loan must possess the legal capacity to incur the obligations of the loan.

The loan applicant must be of legal age, mental capacity, and authority to enter into a legally binding agreement with the lender. An entity applicant and the entity members must be able to enter into such a contract.

108 General Eligibility Requirements for Farm Operating (OL) and Farm Ownership (FO) (7 CFR 762.120) (Continued)

H

Past Dealings

The loan applicant, in past dealings with the Agency, must not have provided the Agency with false or misleading documents or statements.

I

Credit History

The individual or entity loan applicant and all entity members must have acceptable credit history demonstrated by debt repayment. A history of failures to repay past debts as they came due when the ability to repay was within their control will demonstrate unacceptable credit history. Unacceptable credit history will not include either of the following:

- Ⓒ isolated instances of late payments which do not represent a pattern and were clearly beyond their control**
 - Ⓒ lack of credit history.**
-

J

Test for Credit

The loan applicant is unable to obtain sufficient credit elsewhere without a guarantee to finance actual needs at reasonable rates and terms. The potential for sale of any significant nonessential assets will be considered when evaluating the availability of other credit. Ownership interests in property and income received by an individual or entity loan applicant, or any entity members as individuals also will be considered when evaluating the availability of other credit to the loan applicant.

The loan applicant's inability to obtain credit will be demonstrated when the lender certifies that they would not make the loan without a guarantee. The lender certifies this by signing the application form.

If the loan applicant has significant assets that are not essential to the farm operation, and the sale of those assets would remove the need for a guarantee, the loan applicant does not meet the test for credit requirement.

Assets and income of the entity members will also be considered when evaluating the availability of other credit to the entity applicant.

Continued on the next page

108 General Eligibility Requirements for Farm Operating (OL) and Farm Ownership (FO) (7 CFR 762.120) (Continued)

K**Controlled
Substances**

Neither the applicant nor any entity member has been convicted of planting, cultivating, growing, producing, harvesting, or storing a controlled substance under Federal or state law within the last five crop years. “Controlled substance” is defined at 21 CFR part 1308. Applicants must certify on the Agency application form that it and its members, if an entity, have not been convicted of such a crime within the relevant period. If the lender uses the lender’s Agency approved forms, the certification may be an attachment to the form.

L**15-Year OL Time
Limit**

[7 CFR 762.122] No guaranteed OL shall be made to any loan applicant after the 15th year that a loan applicant, or any individual signing the promissory note, received direct or guaranteed OL.

If a borrower had any combination of direct or guaranteed OL closed in 10 or more prior calendar years, prior to October 28, 1992, eligibility to receive new guaranteed OL is extended for 5 additional years from October 28, 1992, and the years need not run consecutively. However, in the case of a line of credit, each year in which an advance is made after October 28, 1992, counts toward the 5 additional years.

Once determined eligible, a loan or line of credit may be approved for any authorized term.

Example: A 5-year LOC could be approved in the last year a borrower was eligible and advances could be made for 5 years.

Continued on the next page

108 General Eligibility Requirements for Farm Operating (OL) and Farm Ownership (FO) (7 CFR 762.120) (Continued)

M

Determining Years of Eligibility for Guaranteed OL's

Loan applicants are eligible to close guaranteed or direct OL's in 15 nonconsecutive years. The following table summarizes the eligibility requirement based on the loan applicant's status on October 28, 1992, the number of years the loan applicant has received direct or guaranteed loans, and the type of loan being applied for.

IF the loan applicant...	THEN they are eligible for...
had direct or guaranteed OL's closed in 10 or more years before October 28, 1992	<p>*--5 years of guaranteed OL closing after--*</p> <p>October 28, 1992.</p> <p>5 years - _____ = _____</p> <p>(# years loan closed * * * after 10/28/92) (# years remaining)</p>
had fewer than 10 direct or guaranteed OL's closed before October 28, 1992	<p>15 years of guaranteed OL.</p> <p>15 years - _____ = _____</p> <p>(# years loan closed) (# years eligible remaining)</p>

Notes: Subsequent year advances on LOC's before October 28, 1992, do not count as an additional year of eligibility. Before October 28, 1992, only the year in which the loan was closed is counted. However, after October 28, 1992, the subsequent advances on LOC's will be counted as a year of eligibility used.

Lenders should contact the local FSA office to determine whether the loan applicant is eligible.

123 Farm Ownership Purposes (7 CFR 762.121(b)) (Continued)

A
Farm Ownership
Purposes
(Continued)

C make capital improvements

Examples: Examples include, but are not limited to, the construction, purchase, and improvement of farm dwellings, service buildings and facilities that can be made fixtures to the real estate.

Notes: FO funds can be used to purchase or build any type of structure, including personal dwellings, related to the farming or ranching enterprise.

*--When planning capital improvements, the lender shall ensure that:

- all project facilities are designed using accepted architectural and engineering practices and conform to applicable Federal, State, and local codes and requirements
- C** the project will be completed with available funds and, once completed, will be used for its intended purpose and produce products in the quality and quantity proposed in the application.--*

[7 CFR 762.122] When FO funds are used for improvements to leased land, the terms of the lease must provide either of the following:

- C** reasonable assurance that the loan applicant will have use of the improvement over its useful life
- C** compensation for any unexhausted value of the improvement if the lease is terminated.

C promote soil and water conservation and protection

Examples: Examples include the correction of hazardous environmental conditions, and the construction or installation of tiles, terraces and waterways.

C pay closing costs, including but not limited to, purchasing stock in a cooperative, appraisal and survey fees

C refinance indebtedness incurred for authorized FO or OL purposes, provided the lender and loan applicant demonstrate the need to refinance the debt.

When the guaranteed loan is to be used to refinance an unguaranteed debt that the requesting lender has with the applicant, FSA will evaluate whether the terms of the proposed loan will improve the applicant's cash flow and likelihood of success.

A

**Specific OL and
FO Limitations**

The total dollar amount of line of credit advances and income releases cannot exceed the total estimated expenses, less interest expense, as indicated on the borrower's cash flow budget, unless the cash flow budget is revised and continues to reflect a feasible plan.

The amount of loan proceeds that the lender advances plus the amount of income that the lender releases to the borrower normally cannot exceed the borrower's total planned expenses, excluding interest expense. However, additional amounts may be advanced or released if a revised feasible plan, as defined in Exhibit 2, is developed.

The Agency will not guarantee any loan made with the proceeds of any obligation the interest on which is excluded from income under Section 103 of the Internal Revenue Code of 1954, as amended. Funds generated through the issuance of tax-exempt obligations may not be used to purchase the guaranteed portion of any Agency guaranteed loan. An Agency guaranteed loan may not serve as collateral for a tax-exempt bond issue.

Many States have financing programs for, typically, beginning farmers using Tax Exempt Industrial Revenue Agricultural Bonds ("Aggie Bonds"). Because of their tax-exempt status, FSA cannot guarantee loans funded with Aggie Bonds.

The Agency will not guarantee any loan to purchase, build, or expand buildings located in a special 100 year floodplain as defined by FEMA flood hazard maps unless flood insurance is available and purchased.

If FEMA floodplain maps have not been completed, this restriction will not apply. However, if the floodplain maps have been completed for the area, but the community has chosen to not make flood insurance available, a guarantee cannot be approved for a loan to construct buildings on the floodplain or purchase farm property if buildings are located on the floodplain. A loan for refinancing or construction of buildings outside the floodplain would not be prohibited.

Continued on the next page

136 Charges and Fees (7 CFR 762.124(e)) (Continued)

B**Late Payment Charges**

Late payment charges (including default interest charges) are not covered by the guarantee. These charges may not be added to the principal and interest due under any guaranteed note or line of credit. However, late payment charges may be made outside of the guarantee if they are routinely made by the lender in similar types of loan transactions.

--Late payment fees and prepayment penalties may be charged on guaranteed loans, if they are routinely charged by the lender on similar loans. Late payment charges, including interest on late payments, may be collected from borrowers when the borrower pays the account current or the loan is paid in full. However, late payment charges and prepayment penalties are not covered by the-- guarantee and will not be paid by the government in the case of a loss. Ledgers that are provided to support the principal and interest included on RD-449-30, Loan Note Guarantee Report of Loss, should not include default interest or late charges.

--C*Guarantee Fee**

A guarantee fee will be charged on all loans unless otherwise stated in this paragraph. Guarantee fees are 1 percent and are calculated as follows:

$$\text{Fee} = \text{Loan Amount} \times \% \text{ Guaranteed} \times .01.$$

The nonrefundable fee is paid to the Agency by the lender. The fee may be passed on to the borrower and included in loan funds.

The following guaranteed loan transactions are not charged a fee:

- Ⓒ loans involving interest assistance
- Ⓒ loans where a majority of the funds are used to refinance an Agency direct loan
- Ⓒ loans to beginning farmers or ranchers involved in the direct beginning farmer downpayment program.

Note: The beginning farmer downpayment loan program refers only to a direct FO made under FmHA Instruction 1943 A. Simply being defined as a beginning farmer will not qualify for a waiver of the fee.--*

137 Loan Term and Payment Schedules (7 CFR 762.124(b) and (c))

A**OL's Repayment
Schedule**

Loan funds or advances on a line of credit used to pay annual operating expenses will be repaid when the income from the year's operation is received, except when the borrower is establishing a new enterprise, developing a farm, purchasing feed while feed crops are being established, or recovering from disaster or economic reverses.

When repayment is scheduled over a longer period, the borrower's expected income is not sufficient security. The lender must secure the loan with additional chattel or real estate security for the period of repayment.

Advances for purposes other than for annual operating expenses will be scheduled for repayment over the minimum period necessary considering the loan applicant's ability to repay and the useful life of the security, but not in excess of 7 years.

B**OL/LOC Final
Maturity Date**

The final maturity date for each loan cannot exceed 7 years from the date of the promissory note or line of credit agreement.

Continued on the next page

138 Insurance Requirements (7 CFR 762.123(a)) (Continued)

C**Flood Insurance
(Continued)**

*--Lender regulatory agencies require use of FEMA-81-93 to determine whether a building or structure offered as security for a loan will be located in a special flood hazard area. The lender shall follow their regulator's guidance on documenting and escrowing for flood insurance.

FSA shall not approve a loan guarantee in which security offered for the loan contains a structure located in a special flood hazard area unless flood insurance is obtained under the National Flood Insurance Program. If a structure is located in a special flood hazard area and the community is not participating in the National Flood Insurance Program, the loan cannot be guaranteed. If there are no structures located in a special flood hazard area, the guarantee may be approved.--*

139 Inspection Requirements (7 CFR 762.123(b))

A**Inspection
Requirements**

Before submitting an application the lender must make an inspection of the farm to assess the suitability of the farm and to determine any development that is needed to make it a suitable farm.

During the inspection, the lender should determine whether the applicant has adequate property, buildings, and equipment to operate a viable farm. A summary of the farm inspection and the lender's assessment of the viability of the operation should be mentioned in the application narrative.

140-150 (Reserved)

152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)

G**Consistency of
Farm Operating
Plans**

When the loan applicant has or will have a cash flow budget developed in conjunction with a proposed or existing Agency direct loan, the two cash flow budgets must be consistent.

To be consistent, the 2 plans must be of the same operation, with similar major assumptions, but they do not have to be identical.

Example: The lender and FSA may use slightly different projected prices and yields.

H**Refinancing
Existing Debt**

Loan guarantee requests for refinancing must ensure that a reasonable chance for success still exists. The lender must demonstrate that problems with the loan applicant's operation have been identified, can be corrected, and the operation returned to a sound financial basis.

An allowed use of guaranteed loan funds is to refinance existing debt, including direct loans and other farm loans. In many cases, refinancing existing debt is required because the borrower is experiencing financial difficulties. In these cases, requests for use of guaranteed loan funds for refinancing debt must ensure that a reasonable chance for operational success exists.

The lender must indicate in the loan narrative what the loan applicant will do differently to ensure the success of the farming operation. The lender must explore different financial options that would allow the loan applicant to achieve a *--feasible plan. The lender should consider adjusting the loan terms or--* negotiating with other creditors to adjust their loan terms or rates as needed to make the loan feasible. See Section 2 for additional information on limitations to refinancing.

Continued on the next page

152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)

I

Alternate Income **When a feasible plan depends on income from other sources in addition to income from owned land, the income must be dependable and likely to continue. The lender will analyze business ventures other than the farm operation to determine their soundness and contribution to the operation.**

Income from custom work and seasonal or temporary positions should not be included in the cash flow budget, unless there is a history of income from similar sources or other strong evidence of likelihood.

* * *

153 Calculating Projected Income and Expenses by CLP Lenders (7 CFR 762.125)

A

Purpose

CLP lenders are provided greater flexibility in estimating the projected income and expenses of an operation. They are not required to estimate production yields or price forecasts for crops, livestock, and livestock products.

The remainder of this paragraph explains the FSA guidelines for determining a loan applicant's income and expenses by CLP lenders.

B

Using Financial History

For CLP lenders, the projected income and expenses of the borrower and operation must be based on the loan applicant's financial history and proven record of financial management.

CLP lenders must use their judgment and evaluation of the individual circumstances to determine the best method for estimating the projected income and expenses of the loan applicant. CLP lenders have the option of using the operation's production yields, as described in paragraph 152 for SEL. CLP lenders will use the loan applicant's income and other financial records. As with the use of production yields, the lender should not merely average 3 years of income figures. An average is only appropriate when there have not been major *--changes in the operation. If there have been major changes in yields, prices, or production, this should be considered when estimating the projected income and expenses.--*

The lender should consider the range and trends as indicators of the capability and limitations of the operator, land, and equipment. The projection should:

- Ⓒ reflect what the current or proposed operation can reasonably and justifiably accomplish
- Ⓒ not be outside the range of historical performance unless fully justified.

The loan narrative should:

- Ⓒ document the method used to project income and expenses
 - Ⓒ provide an explanation of any deviations from historical performance
 - Ⓒ*--address any major changes in yields or prices.--*
-

154 Determining Financial Feasibility of Loans by PLP Lenders (7 CFR 762.125)

A

Purpose

PLP lenders are not required to use the financial feasibility methods in paragraph 151. These lenders will use the methods that FSA approved at the time of PLP certification.

B

Using Internal Procedures

Notwithstanding any other provision of this section, PLP lenders will follow their internal procedures on financial feasibility as agreed to by the Agency during PLP certification.

To determine financial feasibility, PLP lenders must follow the procedures agreed to by FSA and the lender as described in the PLP Lender's Agreement. The loan narrative must contain justification for assumptions made during the determination of financial feasibility.

155-165 (Reserved)

166 Amount and Quality of Security (7 CFR 762.126) (Continued)

D**Lien Position**

All guaranteed loans will be secured by the best lien obtainable provided:

- C when the loan is made for refinancing purposes, the guaranteed loan must hold a security position no lower than on the refinanced loan**

Note: The lender must obtain a lien on all of the collateral that secured the debt that was refinanced, and the lien position on that collateral must be no lower than that which secured the existing debt.

- C any chattel-secured guaranteed loan must have a higher lien priority (including purchase money interest) than an unguaranteed loan secured by the same chattels and held by the same lender**

Note: Any lender, who holds an unguaranteed loan with a first lien on the
--same collateral proposed as primary security for a guaranteed loan,--
must subordinate its lien position to the guaranteed loan.

- C [7 CFR 762.140] guaranteed loan installments will be paid before unguaranteed loans held by the same lender**

- C junior lien positions are acceptable only if the equity position is strong**

Note: In no case will a guarantee be approved, secured by a junior lien on collateral with a 1:1 loan to value ratio.

- C junior liens on crops or livestock products will not be relied upon for security unless the lender is involved in multiple guaranteed loans to the same borrower, and also has first lien on the collateral**

Note: Junior liens on income security may be taken as security, but will be considered to have no collateral value unless the prior lien is securing an FSA-guaranteed loan to the same lender.

Continued on the next page

166 Amount and Quality of Security (7 CFR 762.126) (Continued)

D**Lien Position
(Continued)**

- C additional security or any loan of \$10,000 or less may be secured by the best lien obtainable on real estate without title clearance or legal services normally required, provided the lender believes from a search of the county records that the loan applicant can give a mortgage on the farm and provided that the lender would, in the normal course of business, waive the title search**

Note: This exception to title clearance will not apply when land is to be purchased.

- C when taking a junior lien, prior lien instruments will not contain future advance clauses (except for taxes, insurance, or other reasonable costs to protect security), or cancellation, summary forfeiture, or other clauses that jeopardize the Government's or the lender's interest or the borrower's ability to pay the guaranteed loan, unless any such undesirable provisions are limited, modified, waived or subordinated by the lienholder for the benefit of the Agency and the lender.**

Note: Provisions on prior lien instruments, such as prepayment penalties, will be considered when evaluating the collateral value of the security on the guaranteed loan.

168 Type of Security Required by Type of Loan (7 CFR 762.126(d)) (Continued)

C**Leasehold
Properties**

Loans can be secured by a mortgage on leasehold properties if the lease has a negotiable value and is subject to being mortgaged.

D**Additional
Personal or
Corporate
Guarantees**

The lender or Agency may require additional personal or corporate guarantees to adequately secure the loan. These guarantees are separate from, and in addition to, the personal obligations arising from members of an entity signing the note as individuals. See paragraph 247.

If the farm operation does not have adequate security for the proposed loan, additional security, such as personal or corporate guarantees, may be used to secure the loan. Therefore, entity members may be required to pledge their personal property or other nonfarm assets. For individual loan applicants, an additional guarantee may be provided by a co-signer.

--For entities, the instruments are executed by the member who is authorized to sign for the entity, and by all members of the entity as individuals. Individual liability can be waived by FSA for members holding less than 10 percent ownership in the entity if collectibility of the loan will not be impaired.--

169 Multiple Security Owners and Exceptions to Security Requirements (7 CFR 762.126)

A**Multiple Security Owners**

If security has multiple owners, all owners must execute the security documents for the loan.

B**Exceptions to Security Requirements**

The Deputy Administrator for Farm Loan Programs in the National Office has the authority to grant an exception to any of the requirements involving security, if the proposed change is in the best interest of the Government and the collectability of the loan will not be impaired.

All requests for exception must be submitted to the National Office by the FSA State Office with a recommendation for approval. No exception will be granted without such a recommendation from the State Office.

FSA's decision on granting exceptions is final and not appealable.

170-180 (Reserved)

196 Exception to Standard Guarantee Limits (7 CFR 762.129) (Continued)

A**Exceptions
(Continued)**

- Ⓒ** when the purpose of an FO loan guarantee is to participate in the down payment loan program
- Ⓒ** when a guaranteed OL is made to a farmer or rancher who is participating in the Agency's down payment loan program

Notes: The guaranteed OL must be made during the period that a borrower has the down payment loan outstanding.

This down payment loan program refers only to a direct FO made according to FmHA Instruction 1943-A. Simply being defined as a beginning farmer will not qualify the applicant for a 95 percent guarantee.

Ⓒ*--loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been signed.--*

197-207 (Reserved)

D**Feasible Plan
(Continued)**

- C If significant changes in the borrower's cash flow budget are anticipated after the initial 12 months, then the typical cash flow budget must demonstrate that the borrower will still have a feasible plan following the anticipated changes, with or without interest assistance.**

C*--A borrower may qualify for interest assistance with either an initial or a typical cash flow budget where cash inflows are less than outflows. If the initial cash flow budget shows inflows greater than outflows, but the typical cash flow budget shows outflows greater than inflows, then the loan may be obligated as a subsidized loan and a 0 percent subsidy placed on the loan for the first year. Subsequent year reviews will be conducted normally to determine whether to approve an increase in subsidy.--*

- C If a feasible plan cannot be achieved, the lender may ask other creditors to voluntarily adjust their debts. If other creditors adjust their debts and a feasible plan can be achieved with interest assistance, then interest assistance may be approved.
- C If a feasible plan cannot be achieved, even with other creditors voluntarily adjusting their debts and with the interest assistance, the interest assistance request will not be approved.**

The following apply for existing guaranteed loans not currently under an Interest Assistance Agreement:

- C An existing guaranteed loan is eligible for interest assistance if the borrower needs interest assistance to achieve a feasible plan and the borrower meets the eligibility criteria of Part 8, Section 1, except the provision regarding prior debt forgiveness (subparagraph 108 C).**
- C If a borrower has multiple loans, interest assistance may be provided on one or each loan, as available, to the extent necessary to achieve a feasible plan.**
- C If a feasible plan cannot be achieved, even with other creditors voluntarily adjusting their debts and with the interest assistance, the Interest Assistance request will not be approved.**

Continued on the next page

224 General Rules (7 CFR 762.150(b)) (Continued)

E**Term of Interest
Assistance
Agreement**

The term of the interest assistance agreement under this section shall not exceed 10 years from the date of the first interest assistance agreement signed by the loan applicant, including entity members, or the outstanding term of the loan, as limited by this section, whichever is less.

The term is limited by the first FSA-1980-64, Interest Assistance Agreement.

Interest assistance agreements shall be approved for a term not in excess of 10 years minus the period of time since the first interest assistance agreement was signed.

Note: The period of time a borrower was subject to an Interest Rate Buydown Agreement will not be considered in this limitation.

Transition Rule: Borrowers with interest assistance agreements signed before February 12, 1992, may be considered for an additional 3 years of assistance under the exception authority in paragraph 232.

F**Nonessential
Assets**

The lender must determine whether the borrower, including members of an entity, owns any significant assets which do not contribute directly to essential family living or farm operations. The lender must determine the market value of these assets and prepare a cash flow budget based on the assumption that the value of these assets will be used for debt reduction. If a *--feasible plan can then be achieved, the borrower is not eligible for--* interest assistance. All interest assistance calculations will be based on the cash-flow budget which assumes that the assets will be sold.

227 Interest Assistance Closing (7 CFR 762.150(c))

**A
Closing
Requirements**

Initial guaranteed loans will be closed in accordance with Part 10. Interest assistance will be closed according to this table.

Step	Action
1	The lender will prepare and deliver to the Agency a closing report (RD-1980-19) for each initial and existing guaranteed loan which has been granted interest assistance.
2	<p>When all requirements have been met, the lender and the Agency will execute an interest assistance agreement (FSA-1980-64).</p> <p> C An original FSA-1980-64 will be prepared by FSA for each note or LOC agreement executed.</p> <p> C*--FSA-1980-64 will be executed even if there is a 0 percent subsidy for the first year.--*</p> <p> C All originals of FSA-1980-64 will be provided to the lender and attached to the note with the original guarantee.</p>

228 Annual Request for Interest Assistance Payment or Continuation (7 CFR 762.150)

A**Request for
Interest
Assistance
Payment and
Renewal**

Within 60 calendar days of the annual review date, the lender shall submit the following to FSA:

 C for payment claim information:

 C FSA-1980-24

Notes: FSA-1980-24 shall be used to both request payment for the previous year and document the need for interest assistance for the coming year.

Lenders shall provide FSA with an Electronic Funds Transfer account number so the payment may be transmitted to them electronically.

 C a detailed statement of activity, including all disbursements and payments applied to the loan or LOC account

 C **detailed calculations of average daily principal balance during the claim period**

 C for a continuation of interest assistance:

 C a summary of the operation's actual financial performance in the previous year, including a detailed income and expense statement

 C a narrative description of the causes of any major differences between the previous year's production and actual performance

Note: For all interest assistance agreements exceeding 12 months, the lender will perform an analysis of the applicant's farming operation and need for continued interest assistance.

Continued on the next page

228 Annual Request for Interest Assistance Payment or Continuation (7 CFR 762.150)
(Continued)

A

**Request for
Interest
Assistance
Payment and
Renewal
(Continued)**

C a current balance sheet

C a cash flow budget for the period being planned

Note: A monthly cash-flow budget is required for all lines of credit and OL's made for annual operating purposes. All other loans may include either an annual or monthly cash flow budget.

C a copy of the interest assistance needs analysis portion of the application form which has been completed based on the planned period's cash flow budget.

B

**Final Request for
Payment**

Upon full payment of the note or line of credit, the lender will immediately prepare the request for interest assistance payment and submit it to the Agency.

The final claim period may be less than 12 months.

C

**Final Interest
Assistance
Requests From
Liquidated
Accounts**

Final interest assistance claims must be submitted concurrently with the submission of any estimated loss claims, which cause interest to cease to accrue, or with final loss claims.

Continued on the next page

228 Annual Request for Interest Assistance Payment or Continuation (7 CFR 762.150)
(Continued)

D

**Rules for Interest
Assistance
Claims**

No claim period can exceed 12 months. The initial and final claim periods may be less than 12 months. In such claims, the 4 percent payment will be prorated over the number of days in the claim period. The period for all other claims must be 12 months.

- C The initial claim will cover the entire period between the effective date of the agreement and the annual review date.**
- C Subsequent requests must cover 12-month periods of interest assistance, and must be prepared by the lender and submitted within 60 calendar days after the annual review date.**

To permit the borrower to prepare for the upcoming year, a claim should be filed within 60 days of each anniversary date. Claims not filed within 1 year will not be paid and the amount due the lender is permanently forfeited.

--FSA-1980-24 should be submitted even if the claim amount is 0.--

If a claim is submitted without an interest assistance review, when it is required, the claim will not be processed until the review is submitted by the lender.

Interest assistance claims shall be submitted concurrently with the submission of estimated loss claims where interest accrual ceases, or final loss claims that are not preceded by an estimated loss claim.

E

**Rules for
Continuation
of Interest
Assistance**

A request for continuation of Interest Assistance will be completed for 12 month periods, effective on the anniversary date.

The initial review may be submitted in conjunction with any claim within the initial 12 month period. The anniversary date and length of the review period will be stated on the interest assistance agreement. Any request for interest assistance adjustment submitted effective any time other than the review date will be denied, except for those cases where it is necessary to service the loan with rescheduling, reamortization, deferral or writedown.

Continued on the next page

Part 10 Processing Approvals and Issuing the Guarantee

244 Loan Approval (7 CFR 762.122)

A

Loan Limits

The maximum FO or OL levels outlined below include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances, as indicated, owed by anyone who will sign the promissory note.

The total outstanding combined guaranteed FO and OL principal balance *--cannot exceed \$717,000.

The total outstanding direct and guaranteed FO principal balance cannot exceed \$717,000.

The total outstanding direct and guaranteed OL principal balance cannot exceed \$717,000.

The total combined outstanding direct and guaranteed FO and OL balance cannot exceed \$917,000.--*

B

**Lender
Notification of
FSA Decision**

The lender will be informed of the approval decision in writing.

- C If the application is approved and funds are available, FSA will prepare FSA-1980-15, Conditional Commitment, to the lender and proceed to paragraph 246.
 - C If the application is approved and funds are not available, FSA will prepare a letter to the lender with a copy to the loan applicant, informing them the loan is approved, subject to the allocation of funding. This letter will inform the lender that the loan should not be closed until they receive FSA-1980-15, Conditional Commitment.
 - C If the application is rejected, FSA will prepare a letter to the lender with a copy to the applicant informing them the loan is rejected, the reasons for rejection, and their right to appeal the decision.
-

245 Agency Obligation of the Loan (7 CFR 762.130)

A**Loan Obligation**

Loans are approved subject to the availability of funding. When it appears that there are not adequate funds to meet the needs of all approved loan applicants, applications that have been approved will be placed on a preference list according to the date of receipt of a complete application.

FSA will not issue FSA-1980-15, Conditional Commitment, until verification is received that funds have been obligated for the loan.

If a PLP lender receives an automatic approval of a loan because of FSA's failure to meet the 14-calendar-day response deadline, the lender may not close the loan until it receives the Conditional Commitment. This will be the notification that funds have been obligated.

Continued on the next page

246 Lender's Response to Conditional Commitment (7 CFR 762.130(c)) (Continued)

B**Executing and
Extending
FSA-1980-15**

Once the lender executes the Conditional Commitment, it must be returned to FSA for final processing. Once both parties execute the document, the lender may proceed to close the loan within the timeframe allotted in the Conditional Commitment. If an extension is needed, FSA may grant an extension in writing to the lender. Before issuing an extension, FSA will consider whether enough time has passed that would justify updated financial information or an updated application.

247 Actions Before Issuing Loan Guarantee (7 CFR 762.130)

A**Lender's Actions**

After loan closing, the lender must submit the following to FSA before it will issue FSA-1980-27, Loan Guarantee:

Ⓒ FSA-1980-22, Lender Certification

Ⓒ RD-1980-19, Guaranteed Loan Closing Report

Ⓒ an acceptable appraisal from SEL's, if the guarantee was approved, subject to an appraisal

Note: SEL's are encouraged to submit this appraisal to FSA before loan closing to ensure compliance with FSA requirements.

Ⓒ guarantee fee

Notes: A guarantee fee will be charged on all loans unless otherwise stated in this paragraph. **Guarantee fees are 1 percent and are calculated as follows:**

$$\text{Fee} = \text{Loan Amount} \times \% \text{ Guaranteed} \times .01.$$

The nonrefundable fee is paid to the Agency by the lender. The fee may be passed on to the borrower and included in loan funds.

The following guaranteed loan transactions are not charged a fee:

Ⓒ loans involving interest assistance

Ⓒ loans where a majority of the funds are used to refinance an Agency direct loan

Continued on the next page

247 Actions Before Issuing Loan Guarantee (7 CFR 762.130) (Continued)

A
Lender's Actions
(Continued)**C loans to * * * farmers or ranchers involved in the direct beginning farmer downpayment program**

Note: The beginning farmer downpayment loan program refers only to a direct FO made under FmHA Instruction 1943-A. Simply being defined as a beginning farmer will not qualify for a waiver of the fee.

C*--loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been signed.--*

C a copy of the executed promissory note or loan agreement

Note: The lender will use its own promissory notes, line of credit agreements, real estate mortgages (including deeds of trust and similar instruments), and security agreements (including chattel mortgages in Louisiana and Puerto Rico), provided:

C the forms meet Agency requirements**C documents comply with State law and regulation****C the principal and interest repayment schedules are stated clearly in the notes and are consistent with the conditional commitment****C the note is executed by the individual liable for the loan**

Note: For entities, the note is executed by the member who is authorized to sign for the entity, and by all members of the entity as individuals. Individual liability can be waived by the Agency for members holding less than 10 percent ownership in the entity if the collectability of the loan will not be impaired.

C when the loan purpose is to refinance or restructure the lender's own debt, the lender may continue to use the existing debt instrument and attach an allonge that modifies the terms of the original note.**C a current FSA-1980-38, Lender's Agreement, must be on file with FSA. If a current agreement is not on file, one must be executed before a guarantee is issued.**

Reports, Forms, Abbreviations, and Delegations of Authority

Reports None

Forms This table lists all forms referenced in this handbook.

Number	Title	Display Reference	Reference
AD-1026	Highly Erodible Land Conservation and Wetland Conservation Certification		69.5, 208
FEMA-81-93	Standard Flood Hazard Determination Form		138
FSA-440-32	Request for Statement of Debts and Collateral		152
FSA-1980-01	Lender's Processing Checklist		69
FSA-1980-15	Conditional Commitment		Text
FSA-1980-22	Lender Certification		247
FSA-1980-24	Request for Interest Assistance Payment		228, 326
FSA-1980-25	Application for Guarantee		69.5, 69.7, 72, 208, 209
FSA-1980-26	Report on Collection Activities on Liquidated Accounts		266, 362
FSA-1980-27	Loan Guarantee		69.7, 226, 230, 247, 248, 250, 374
FSA-1980-28	Preferred Lender Application for Guarantee		70
FSA-1980-36	Assignment of Guarantee		374, 375
FSA-1980-38	Lender's Agreement		Text
FSA-1980-41	Guaranteed Farm Loan Status Report as of _____		266
FSA-1980-44	Guaranteed Farm Loan Default Status Report		Text

Continued on the next page

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)

**Forms
(Continued)**

Number	Title	Display Reference	Reference
FSA-1980-64	Interest Assistance Agreement		224, 227, 228, 230, 231, 287
FSA-1980-84	Modification of Loan Guarantee		313, 326
FSA-1980-88	Farm Loan Programs Guaranteed Writedown Worksheet		328
FSA-1980-89	Shared Appreciation Agreement for Guaranteed Loans		181, 288, 328, 341
RD-449-30	Loan Note Guarantee Report of Loss		136, 328, 342, 359
RD-1910-5	Request for Verification of Employment		152
RD-1980-19	Guaranteed Loan Closing Report		227, 247
RD-1980-47	Guaranteed Loan Borrower Adjustments		284
W-2	Wage and Tax Statement		152

**Abbreviations
Used in This
Handbook**

The following abbreviations are used in this handbook.

Approved Abbreviation	Term	Reference
ALP	Approved Lender Program	34
CLP	Certified Lender Program	Text
CONACT	Consolidated Farm and Rural Development Act	108

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Definitions of Terms Used in This Handbook (Continued)

Beginning Farmer or Rancher (Continued)

In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm or ranch. Material and substantial participation requires that the individual provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the individual did not provide these inputs, operation of the farm or ranch would be seriously impaired.

C agrees to participate in any loan assessment, and financial management programs required by Agency regulations

C*--except for applicants for operating loans, does not own real farm or ranch--*
property or who, directly or through interests in family farm entities owns real farm or ranch property, the aggregate acreage of which does not exceed 25 percent of the average farm or ranch acreage of the farms or ranches in the county where the property is located

Note: If the farm is located in more than one county, the average farm acreage of the county where the loan applicant's residence is located will be used in the calculation. If the loan applicant's residence is not located on the farm or if the loan applicant is an entity, the average farm acreage of the county where the major portion of the farm is located will be used. The average county farm or ranch acreage will be determined from the most recent Census of Agriculture developed by the U.S. Department of Commerce, Bureau of the Census or USDA.

C demonstrates that the available resources of the loan applicant and spouse (if any) are not sufficient to enable the loan applicant to enter or continue farming or ranching on a viable scale

C in the case of an entity:

C all the members are related by blood or marriage

C all the stockholders in a corporation are qualified beginning farmers or ranchers.

Borrower

A borrower is an individual or entity which has outstanding obligations to the lender under any Agency loan program. A borrower includes all parties liable for Agency debt, including collection-only borrowers, except those whose total loan and accounts have been voluntarily or involuntarily foreclosed or liquidated, or who have been discharged of all Agency debt.

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

* * *

**Cash Flow
Budget**

Cash flow budget is a projection listing all anticipated cash inflows (including all farm income, nonfarm income and all loan advances) and all cash outflows (including all farm and nonfarm debt service and other expenses) to be incurred by the borrower during the period of the budget. Cash flow budgets for loans under \$50,000 do not require income and expenses itemized by categories. A cash flow budget may be completed either for a 12 month period, a typical production cycle or the life of the loan, as appropriate. It may also be prepared with a breakdown of cash inflows and outflows for each month of the review period and includes the expected outstanding operating credit balance for the end of each month. The latter type is referred to as a “monthly cash flow budget”.

Collateral

Collateral is property pledged as security for a loan to ensure repayment of an obligation.

**Conditional
Commitment**

A conditional commitment is the Agency’s commitment to the lender that the material it has submitted is approved subject to the completion of all conditions and requirements contained therein.

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

FSA	<u>FSA</u> is the United States of America, acting through the Farm Service Agency, an agency of the United States Department of Agriculture. References to the National Office, Finance Office, State Office, County Office, District Office, SED, DD, local credit officer, or other FSA offices or officials should be read as prefaced by "FSA."
Graduation	<u>Graduation</u> is the Agency's determination that a borrower of a direct loan is financially stable enough to refinance that loan with a commercial lender with or without a guarantee.
Guaranteed Loan	A <u>guaranteed loan</u> is a loan made and serviced by a lender for which the Agency has entered into a Lenders Agreement and for which the Agency has issued a Loan Note Guarantee. This term also includes lines of credit except where otherwise indicated.
Hazard Insurance	<u>Hazard insurance</u> includes fire, windstorm, lightning, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, builder's risk, public liability, property damage, flood or mudslide, workers compensation, or any similar insurance that is available and needed to protect the security, or that is required by law.
Holder	A <u>holder</u> is the person or organization other than the lender who holds all or a part of the guaranteed portion of an Agency guaranteed loan but who has no servicing responsibilities. When the lender assigns a part of the guaranteed loan to an assignee by way of execution of an assignment form, the assignee becomes a holder.
In-House Expenses	<u>In-house expenses</u> are expenses associated with credit management and loan servicing by the lender and lender's contractor. In-house expenses include, but are not limited to: employee salaries, staff lawyers, travel, supplies, and overhead.

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Definitions of Terms Used in This Handbook (Continued)

Interest Assistance Agreement	The <u>interest assistance agreement</u> is the signed agreement between the Agency and the lender setting forth the terms and conditions of the interest assistance.
Interest Assistance Anniversary Date	The <u>interest assistance anniversary date</u> is the date on which interest assistance reviews and claims will be effective. This date is established by the lender. Once established, it will not change unless the loan is restructured.
Interest Assistance Review	The <u>interest assistance review</u> is the yearly review process that includes an analysis of the borrower or applicant's farming operation and need for continued interest assistance, completion of the needs test and request for continuation of interest assistance.
Joint Operation	A <u>joint operation</u> is individuals that have agreed to operate a farm or farms together as a business unit. The real and personal property may be owned separately or jointly by the individuals. Joint operations include limited *--liability companies having more than one member. A revocable trust may be a joint operation if it is a farming operation in which 2 or more farmers work together sharing equally or unequally land, labor, equipment, expenses, and income.--*
Land Development	<u>Land development</u> is items such as terracing, clearing, leveling, fencing, drainage and irrigation systems, ponds, forestation, permanent pastures, perennial hay crops, basic soil amendments, and other items of land improvements which conserve or permanently enhance productivity.
Lender	A <u>lender</u> is the organization making and servicing the loan or advancing and servicing the line of credit which is guaranteed under the provisions of Agency regulations. The lender is also the party requesting a guarantee.
Lender's Agreement	A <u>lender's agreement</u> is the appropriate Agency form executed by the Agency and the lender setting forth the loan responsibilities of the lender and agency when the Loan Guarantee is issued.

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

Relative	<p>A <u>relative</u> is an individual or spouse and anyone having the following relationship to either:</p> <table> <tr> <td>C parents</td><td>C half sister</td></tr> <tr> <td>C son</td><td>C uncle</td></tr> <tr> <td>C daughter</td><td>C aunt</td></tr> <tr> <td>C sibling</td><td>C nephew</td></tr> <tr> <td>C stepparent</td><td>C niece</td></tr> <tr> <td>C stepson</td><td>C grandparent</td></tr> <tr> <td>C stepdaughter</td><td>C granddaughter</td></tr> <tr> <td>C stepbrother</td><td>C grandson</td></tr> <tr> <td>C stepsister</td><td>C spouses of the foregoing.</td></tr> <tr> <td>C half brother</td><td></td></tr> </table>	C parents	C half sister	C son	C uncle	C daughter	C aunt	C sibling	C nephew	C stepparent	C niece	C stepson	C grandparent	C stepdaughter	C granddaughter	C stepbrother	C grandson	C stepsister	C spouses of the foregoing.	C half brother	
C parents	C half sister																				
C son	C uncle																				
C daughter	C aunt																				
C sibling	C nephew																				
C stepparent	C niece																				
C stepson	C grandparent																				
C stepdaughter	C granddaughter																				
C stepbrother	C grandson																				
C stepsister	C spouses of the foregoing.																				
C half brother																					
Rescheduling	<p><u>Rescheduling</u> is to rewrite the rates or terms of a single note or line of credit agreement.</p>																				
Restructuring	<p><u>Restructuring</u> is the changing terms of a debt through either a rescheduling, deferral, or writedown or a combination thereof.</p>																				
Security	<p><u>Security</u> is property of any kind subject to a real or personal property lien. Any reference to “collateral” or “security property” shall be considered a reference to the term “security.”</p>																				
Shared Appreciation Agreement	<p>A <u>shared appreciation agreement</u> is an agreement between a guaranteed lender and borrower that requires a borrower that has received a write down on a guaranteed loan secured by real estate to repay the lender all or some of the writedown received, based on a percentage of any increase in the value of that real estate at some future date, if certain conditions exist.</p>																				
Socially Disadvantaged Applicant	<p>*--A <u>socially disadvantaged applicant</u> is a loan applicant who is a member of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as a member of a group, without regard to their individual qualities. For entity applicants, the majority interest has to be held by socially disadvantaged individuals. FSA has identified socially disadvantaged groups to--* consist only of Women, Blacks, American Indians, Alaskans Natives, Hispanics, Asians, and Pacific Islanders.</p>																				

Definitions of Terms Used in This Handbook (Continued)

State or United States	<u>State or United States</u> is the major political subdivision of the United States and the organization of program delivery for the Agency. The United States itself, each of the several States, the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.
State Beginning Farmer Program	A <u>State beginning farmer program</u> is any program that is carried out by, or under contract to, a State and designed to assist persons in obtaining the financial assistance necessary to establish a new or maintain a recently established farming or ranching operation.
Subordination	<u>Subordination</u> is a document executed by a lender to relinquish the priority of their lien, in favor of another lender that provides that lender with a superior lien position to secure a debt with the same collateral.
Subsequent Loans	<u>Subsequent loans</u> are any loans processed by the FSA Finance Office after an initial loan has been made to the same borrower.
Transfer and Assumption	<u>Transfer and assumption</u> is the conveyance by a debtor to an assuming party of the assets, collateral, and liabilities of a loan in return for the assuming party's binding promise to pay the debt outstanding.
Typical Plan	<u>Typical plan</u> is a projected income and expense statement listing all anticipated cash flows for a typical 12-month production cycle; including all farm and nonfarm income and all expenses (including debt service) to be incurred by the borrower during such period.
--Typical Cash Flow Budget	A <u>typical cash flow budget</u> is a cash flow budget that reflects the cash inflows and outflows the operation will likely incur during a normal production cycle.--
Unaccounted for Security	<u>Unaccounted for security</u> is items, as indicated on the lender's loan application, request for guarantee, or any interim agreements provided to the Agency, that are security for the guaranteed loan that were misplaced, stolen, sold, or otherwise missing, where replacement security was not obtained or the proceeds from their sale have not been applied to the loan.
Veteran	A <u>veteran</u> is any person who served in the military, naval, or air service during any war as defined in 38 U.S.C. 101(12).